

**PUBLIC DISCLOSURE**

NOVEMBER 5, 1998

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**KELKO CREDIT UNION**

450 COTTAGE STREET  
SPRINGFIELD, MA 01104

DIVISION OF BANKS  
100 CAMBRIDGE STREET  
BOSTON, MA 02202

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of KELKO CREDIT UNION prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

### **INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"**

The assessment of Kelko Credit Union's record of performance is based upon its efforts in meeting the criteria outlined in this report. The analysis of the credit union's net loan to deposit ratio for the semi-annual period December 31, 1996, through June 30, 1998, indicates an average of 45.5 percent for this period. While this figure is somewhat low, it is not unusual for this type of institution, and is considered to meet satisfactory standards. Moreover, the distribution of consumer loans reflects reasonable penetration among members of all income levels with good penetration among borrowers of low and moderate-income. Finally, the credit union's fair lending performance is considered satisfactory given the size, and resources of the credit union.

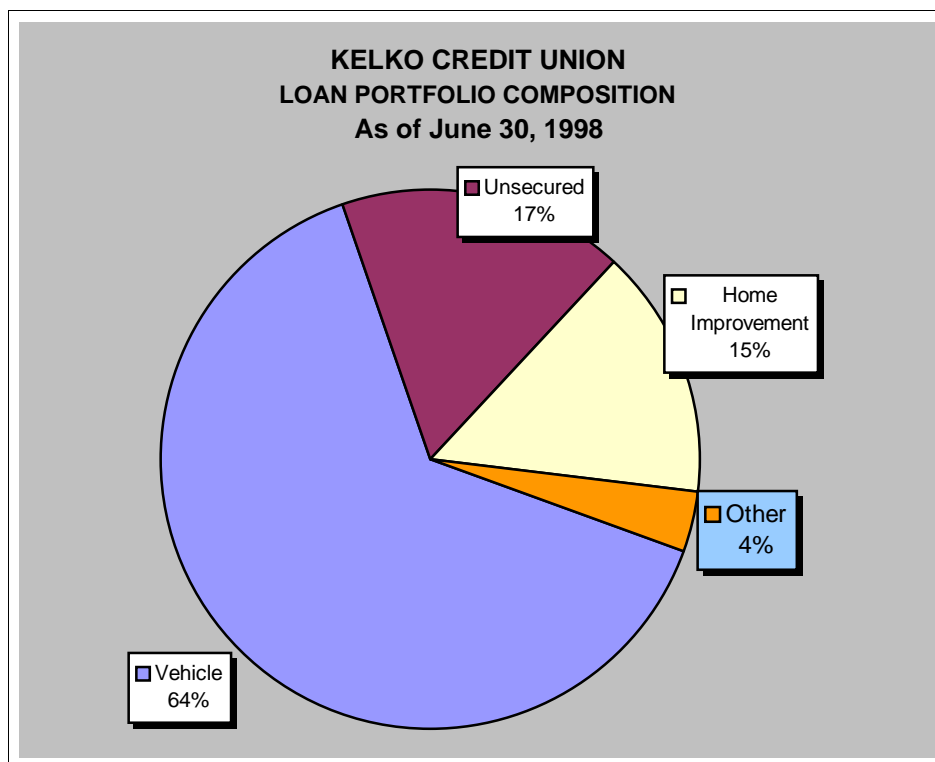
## **PERFORMANCE CONTEXT**

### **Description of Institution**

Kelko Credit Union was incorporated under the laws of the Commonwealth of Massachusetts in 1941. This small, so called “industrial” credit union with \$10,015,861 in total assets as of June 30, 1998, was established to serve members who are employees and retirees of Westvaco Envelope Division, Kelko Credit Union, or any business organization maintaining an office in the Springfield Industrial Park. Family members of eligible individuals may also become members of the credit union. The credit union’s only office is located at 450 Cottage Street in Springfield, Massachusetts.

Kelko Credit Union’s business hours are from 9:00 a.m. to 4:30 Monday through Friday, with extended hours to 6:00 p.m. on Thursday. Hours of operation appear convenient and accessible to members. Additionally, the credit union offers the convenience of Automated Teller Machine (ATM) cards to its members. The card, which does not have deposit taking capabilities, functions at ATMs on the NYCE and PLUS networks.

As of June 30, 1998, loans to members totaled \$3,866,944 or 38.6 percent of the institution's total assets. Credit services offered by the institution include automobile, personal, home improvement, and recreational vehicle loans. The following graph provides a breakdown of the loan portfolio.



The Division of Banks on April 10, 1996 last examined Kelko Credit Union for compliance with the Community Reinvestment Act. The examination resulted in an overall rating of “Satisfactory”.

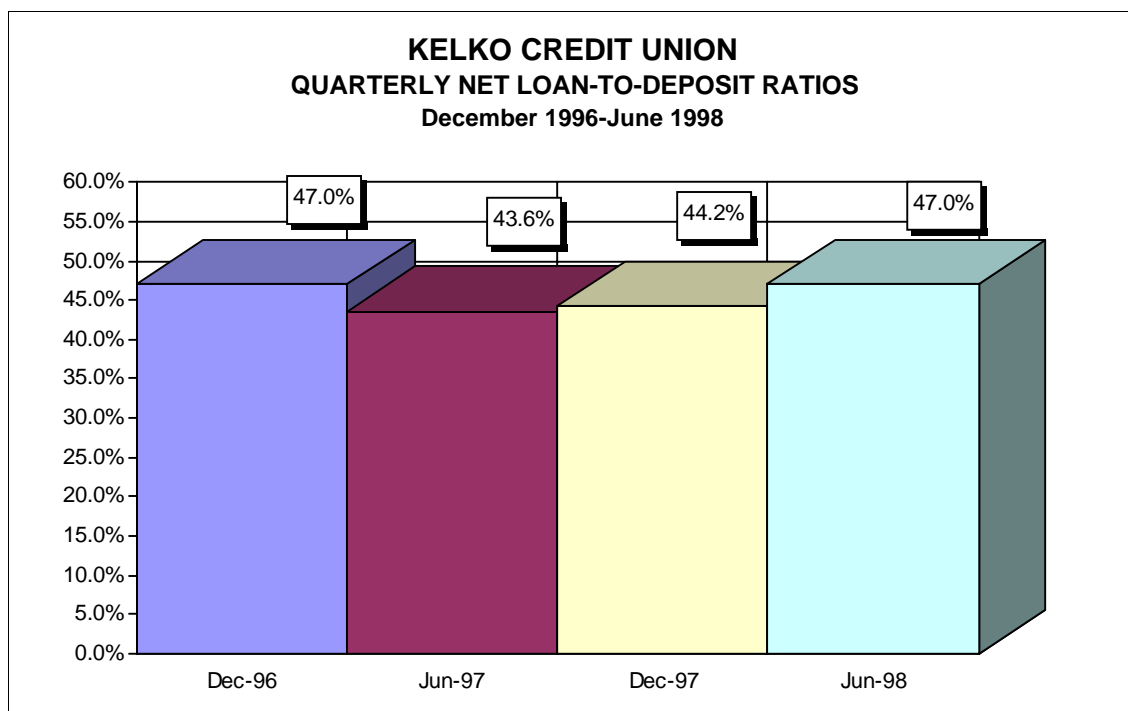
## Description of Assessment Area

Kelko Credit Union defines its assessment area as its membership, in accordance with the state CRA Regulation 209 CMR 46.41(8) which states “Notwithstanding the requirements of this section, a credit union whose membership by-law provisions are not based on residence may delineate its membership as its assessment area.” As of June 30, 1998, the credit union’s membership totaled approximately 1,476 members. The credit union’s loan data indicates that the types of loans most members seek are vehicle loans.

## PERFORMANCE CRITERIA

### 1. LOAN TO DEPOSIT ANALYSIS

An analysis of Kelko Credit Union's net loan-to-deposit ratio was performed using NCUA semi-annual call report data for the period December 31, 1996 through June 30, 1998. This analysis was conducted to determine the extent of the credit union’s lending compared to deposits received from its membership. The results of this review indicated that the average net loan-to-deposit ratio for the period was 45.5 percent.



As of June 30, 1998, Kelko Credit Union’s net loan-to-deposit ratio was 47.0 percent. As indicated in the following table, other credit unions of similar type had net loan-to-deposit ratios that ranged from 45.0 percent to 87.1 percent as of June 30, 1998, with Kelko Credit Union ranking fourth out of five credit unions of similar type operating in the Springfield area.

<b>NET LOANS TO DEPOSITS AS OF 06-30-98</b>	
<b>INSTITUTION</b>	<b>%</b>
Springfield Street Railway Employees C.U.	87.1
Springfield Mass. Municipal Employees C.U.	75.0
Springfield Teachers Credit Union	52.7
<b>Kelko Credit Union</b>	<b>47.0</b>
Monsanto Employees Credit Union	45.0

Based upon the above information and the credit union's capacity to lend, asset size, and the credit needs of the membership, the analysis of the credit union's net loan-to-deposit ratio indicates that Kelko Credit Union's performance in this section is marginally satisfactory.

## **2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)**

Under the revised CRA regulations a credit union whose membership is not based on residence, such as Kelko Credit Union, may define its assessment area as its membership. Because a membership defined assessment area does not consider any fixed limits based on geography, an analysis involving credit extended inside a particular defined geographic area compared to credit extended outside of a particular geographic area is not meaningful.

## **3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS**

The credit union's lending, based upon the analysis of consumer loans by borrower income, meets the standards for satisfactory performance in providing credit to members of all income levels.

An analysis of the credit union's consumer loans for the period January 1, 1997, through year-to-date June 30, 1998, was conducted. A sample of loans consisting of vehicle, personal and home improvement loans was used to determine the distribution of credit based upon the income levels of borrowers. Most of the loans in the sample originated within the Springfield Metropolitan Statistical Area (MSA). Therefore, the analysis of borrower income level was identified as the ratio of borrower income to the Median Family Income for the Springfield MSA. The Springfield MSA median family income for calendar years 1997 and 1998 was \$45,500. This figure is based upon estimated Department of Housing and Urban Development (HUD) information.

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA; moderate income is defined as 50 to 79 percent of the median family income; middle income is defined as income between 80 and 119 percent of the median family income; and upper income is defined as income greater than 120 percent of the median family income.

An analysis of the credit union's call report data indicated that Kelko extended 266 loans in 1997 for a total of \$1,924,954; and 153 loans were extended as of June 30, 1998, for a total of \$1,174,654. A sample was taken of consumer installment loans originated in 1997

and 1998. This sample consisted of a total of 34 approved loans and included a mixture of automobile, and secured and unsecured loans. This review indicated that 11.8 percent of the number of loans from the sample were made to low-income borrowers and 20.6 percent to moderate-income borrowers. The dollar volume originated indicated that 7.9 percent of the dollar amount of the sample were made to low-income borrowers, and 18.8 percent to moderate-income borrowers.

It should be stated that the majority of consumer loans were made to single applicants, although 47.0 percent of the loans in the sample were to joint applicants. Since the income of the applicant is compared to the median family income, penetration of the lower income categories tends to be somewhat inflated as only one applicant's income is used. The following tables provide more detail of the income levels of the consumer loan sample in relation to the median family income for the Springfield MSA.

Table 3a

<b>CONSUMER LOANS ORIGINATED BY INCOME OF BORROWER (number)</b>						
<b>% OF MEDIAN MSA INCOME</b>	<b>1997</b>		<b>1998*</b>		<b>TOTAL</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<50%	0	0.0	4	23.5	4	11.8
50% - 79%	4	23.5	3	17.6	7	20.6
80% - 119%	7	41.2	4	23.5	11	32.3
120% >	6	35.3	6	35.4	12	35.3
<b>TOTAL</b>	<b>17</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>	<b>34</b>	<b>100.0</b>

Source: Loan File Data

\*year-to-date June 30, 1998

Table 3b

<b>CONSUMER LOANS ORIGINATED BY INCOME OF BORROWER (dollar amount)</b>						
<b>% OF MEDIAN MSA INCOME</b>	<b>1997</b>		<b>1998*</b>		<b>TOTAL</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<50%	0	0.0	31	14.2	31	7.9
50% - 79%	30	17.2	44	20.1	74	18.8
80% - 119%	97	55.4	43	19.6	140	35.5
120% >	48	27.4	101	46.1	149	37.8
<b>TOTAL</b>	<b>175</b>	<b>100.0</b>	<b>219</b>	<b>100.0</b>	<b>394</b>	<b>100.0</b>

Source: Loan File Data

\*year-to-date June 30, 1998

#### **4. GEOGRAPHIC DISTRIBUTION OF LOANS**

According to CRA regulations, an institution shall delineate one or more assessment areas by which the institution will serve to meet the credit needs of its community and by which the Division will evaluate the institution's CRA performance. On May 16, 1997, the state CRA regulation 209 CMR 46.00 became effective. Credit unions whose membership by-laws provisions are not based upon residence were now permitted to designate their membership as the assessment area. As KELKO Credit Union has defined its membership as its assessment area, an evaluation of credit extended within various census tracts was not conducted, as such an analysis would not be meaningful.

#### **5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES**

Based upon the review of the credit union's public comment file and its performance relative to fair lending policies and practices, the institution meets the standards for satisfactory performance.

##### ***Review of Complaints***

A thorough review of the public comment file revealed that the credit union received no complaints pertaining to the institution's CRA performance since the previous examination.

##### ***Fair Lending Policies and Practices***

The credit union has a CRA and Fair Lending Policy which addresses marketing, training and complaints. Detailed below is the credit union's fair lending performance as it correlates to the guidelines established by the Division's Regulatory Bulletin 2.3-101.

#### **STAFF TRAINING**

Resources are limited for any formalized fair lending training. The staff is informally made aware of fair lending laws and regulations.

#### **STAFF COMPOSITION AND COMPENSATION**

The credit union currently employs four individuals, none of whom is a minority. The Credit Committee appointed by the Board of Directors has the responsibility for granting all types of loans, and receives no compensation.

#### **OUTREACH**

The credit union maintains contact with its membership primarily through its Board of Directors' interaction with eligible members within the workplace.

## **CREDIT PRODUCTS AND UNDERWRITING STANDARDS**

The Board of Directors' minutes indicates that credit products are reviewed to determine whether current products meet the credit needs of the credit union's eligible membership. Effective November 1, 1998 the credit union began offering its annual holiday loan special, which is written for 12 months at 7.9 percent APR. In addition, a 6.9 percent home improvement loan product at 6.9 percent is offered in amounts from \$5,000 to \$40,000 for 5 years.

## **MARKETING**

Advertising is done primarily through bulletin board notices within the workplace and member's statement stuffers to inform eligible members of the credit union's credit services.

## **CREDIT EDUCATION**

The credit union has not conducted or participated in any credit education seminars.

## **COUNSELING**

Members of the credit union who are delinquent in repaying their loans are referred to the appropriate credit counseling services.

## **SECOND REVIEW PRACTICES**

Prior to sending an adverse action notice, all loans considered for denial are reviewed by the credit union's Treasurer. This process helps to ensure that all fair lending laws and procedures have been adhered to.

## **INTERNAL REVIEW PROCEDURES**

The Treasurer, Assistant Treasurer, and the Audit Committee of the credit union review fair lending practices at least bi-monthly to determine compliance with fair lending laws and regulations.

# THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

## **KELKO CREDIT UNION**

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **NOVEMBER 5, 1998**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_